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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION

The Processing Tax

Highlights: The processing taxes are collected by the United States Bureau of Internal Revenue from the first domestic processing of certain farm products for which adjustment programs are in effect. Farmers do not have to pay processing taxes on products raised by themselves and used at home. Exporters of the unprocessed farm products pay no processing tax. "Drawbacks", or refunds, equal to the amount of the processing tax, are paid to exporters of processed farm products. The processing tax on cotton, for example, has no effect on the export trade of raw cotton, and when cotton goods are exported, the exporter is able to obtain a refund equal to the amount of the processing tax paid. (See Page 6.)

Compensating taxes, in addition to the tariff, are levied on imported articles in order to keep the usual balance of competition between imported goods and those made in the United States. Compensating taxes also may be levied on the processing of substitute products in this country, as has been done on jute and paper in the forms in which they come into competition with cotton. (See Page 6.)

Benefit payments are made to farmers in consideration of their adjusting their production of certain named commodities for market to the effective demand for such commodities. Farmers are paid for giving up the use of a part of their land, in order that national production may be held in line with effective national and international demand for agricultural products. The adjustment programs are directed toward the elimination and prevention of surpluses, so as to restore and maintain farmers' purchasing power. This, in turn, puts city people to work producing the goods that farmers buy with their increased farm incomes. In fact, the increase in farm income from 1932 to date has been accompanied by an almost exactly corresponding increase in the income of industrial workers and a higher standard of welfare for the general population. (See Page 3.)

The Agricultural Adjustment Act, with the processing taxes and with benefit payments to farmers for adjusting production to effective demand, is enabling farmers to do for themselves what closely knit industrial organizations long have done—control production to secure fair returns and maintain prices in face of reduced demand. (See page 3.)

I. Are Processing Taxes Necessary to Adjust Agriculture?

People often ask why there is need to reduce or shift or adjust agricultural production.

Look at agricultural America as one big farm. Before the adjustment programs in 1933 something over 370 million acres were planted. Crops were actually harvested from about 360 million

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acres. During 5 years of the " prosperity era ", 1925–29, the American people ate domestically grown products from about 275 million acres of land each year. Factories in America used up domestically grown nonfood products such as cotton, tobacco, and flax from over 20 million acres more. The American people, in other words, consumed the products from 296 million acres of land.

Farmers exported the products from 65 million acres during the 5 years ending in 1929, but in 1932–33 this dropped to 44 million acres, and in 1933–34 less than 40 million acres produced crops for the export market.

The situation is this: Not more than 335 to 340 million acres of land are needed at present to produce for both the American and the foreign market, and the products from at least 20 to 25 million acres are without a ready market. As matters now stand, that excess can ruin prices for the entire production of the American farmer, as it did in 1932.

In the long run there may be other and better ways to keep the farmer's buying power up, but at present it seems that unless farmers adjust their production to what the market will buy at a fair price, farm income will fall to very low levels again.

Six million American farmers, each acting alone, were unable to reduce production under the pressure of rapidly falling prices from 1929 to 1932. Even farm bankruptcy often does not remove land from production. Frequently either someone else comes in to operate the farm, or the previous owner who has been " sold out " stays on as a tenant. The Agricultural Adjustment Act makes it possible for farmers, acting cooperatively, to adjust production to demand. But benefit payments are necessary as a means of getting farmers to participate in cooperative adjustment programs, and processing taxes under the terms of the Agricultural Adjustment Act must be levied when adjustment programs are put into effect.

Why Adjustment Programs Are Justified

Not all farmers can make a success even if prices of farm products are kept in line with prices of things farmers buy. But when farm prices are seriously out of line with other prices, as was the case in 1931, 1932, and 1933, the reduced incomes of even the more efficient farmers will not permit them to pay their debts, interest, and operating expenses, and have some money left over with which they can buy the products of industry for their families and their farms. Farmers are out of the market for clothes, household goods, machinery, autos, drugs, and all kinds of wares made in factories and sold in stores throughout the land. The people making and selling these things, therefore, haven't work to do. This means unemployment in

the cities and even in country towns, where people are unable to pay as much for farm products, and therefore prices farmers receive fall still lower.

As rapidly as farm income has been restored, farmers have begun to buy more adequate clothing for their families, refurnish their homes, replace worn-out automobiles and farm machinery and equipment, resume the purchase of fertilizer, and, in fact, help greatly in restoring the rural market for many city industries whose activity had previously declined with reduced farm buying power. For example, new passenger automobile registration increased 147 percent from the first six months of 1933 to the first six months of 1935 in the predominantly agricultural States of the Nation as compared with 97 percent in the more industrial States.

That the increase in farm income was in fact a very important factor in the business recovery which has taken place since 1933 is recognized in the monthly publication of a large New York City bank of October 1935, where the following appears:

> It is hardly deniable that the impetus to the general business improvement originated on the farms, in the improved relationship between farm and industrial prices, which gave farm products a greater value in exchange for the products of industry. * * *
>
> All the farm markets have had a vast improvement, through the reduction or elimination of the surpluses accumulated even before the depression. Balanced relationships between supply and demand have been restored, and buyers are no longer afraid of the markets, or unwilling to carry the stocks that accumulate during the season of production. * * *

Why Benefit Payments Are Justified in an Adjustment Program

Benefit payments are made to farmers, in consideration of their adjusting their production of certain named commodities for market to the effective demand for such commodities. Farmers are paid for giving up the use of a part of their land, in order that national production may be held in line with effective national and international demand for agricultural products. The adjustment programs are directed toward the elimination and prevention of surpluses, so as to restore and maintain farmers' purchasing power. This, in turn, puts city people to work producing the goods that farmers buy with their increased farm incomes. In fact, the increase in farm income from 1932 to date has been accompanied by an almost exactly corresponding increase in the income of industrial workers and a higher standard of welfare for the general population.

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closely knit industrial organizations long have done—control production to secure fair returns and maintain prices in face of reduced demand.

The Tariff

In framing the Agricultural Adjustment Act, Congress was quite definitely attempting to do for agricultural prices what a moderate tariff, if effective, would have done. Farmers have learned from long experience that even a high tariff is not effective in raising prices of agricultural products, such as cotton, tobacco, wheat, rice, hog products, etc., which are on an export basis. On the other hand, tariff protection has in many instances directly raised prices on what farmers have to buy, such as glass, cutlery, chemicals, clothing, etc. Furthermore, the tariff has encouraged monopolistic development, with prices held at high levels in this country as compared with others. The agricultural adjustment programs help to put the farmer on a somewhat more equal footing with tariff-protected industries.

From the very beginning of our Government, the arguments advanced in behalf of a tariff justified the tariff as being the exercise of the taxing power of Congress in the interest of the general welfare. The arguments advanced in behalf of tariff legislation are not greatly different from those which are now being advanced in support of the Agricultural Adjustment Act.

These high American tariffs have greatly reduced the importation of foreign goods formerly imported into this country. Many of these products can be produced more cheaply abroad than in the United States. On the other hand, this country can produce many products, such as wheat, cotton, hogs, tobacco, as well as many kinds of manufactured goods, more cheaply than most foreign countries. If these products could in fact be exchanged, the people in both countries would benefit, first, by getting goods at a lower price, and, second, by having their labor employed in those industries in which each country is most efficient and has the natural advantage. Tariffs, quotas, etc., retard and prevent this natural and desirable flow of goods between countries. In fact, our extremely high tariffs have forced foreign countries to greatly increase their tariff and other trade barriers against American goods (in retaliation).

Furthermore, the United States has become in recent years a great creditor nation, as a result of the vast sums of money borrowed from this country by foreign nations and by people living in foreign countries, both during and following the World War. These lendings left this country largely in the form of goods. The only way that America can expect these countries to pay interest and principal

on these debts is also in the form of goods and services. High tariffs retard payment in the form of goods.

Until America is willing to accept more imports of goods and services from abroad it cannot hope for any sound and enduring restoration of export trade in agricultural products. The problem of the farmers in a high-tariff creditor Nation is fairly well met, temporarily, by the processing tax and the adjustment programs.

Rural Credit

During the period of sharply-declining farm prices from 1929 to early 1933 many farmers were unable to pay taxes or make interest payments. As a result, credit institutions in rural regions—country banks, insurance companies, etc.—collapsed and many farmers found themselves without either banking or credit facilities; but with the higher prices of farm products which have occurred since early 1933 farmers have been better able to meet their taxes and interest payments, and, as a result, country banks have reopened, their deposits have risen sharply, and credit has again become available to farmers. Farm-land values also have risen and commercial failures in farm regions have shrunk to a small fraction of their previous high level.

Various Methods of Adjustment

Adjustment of farm production to effective demand, thereby obtaining fair prices, might be secured in a number of ways:

1. ***Voluntary adjustment, with benefit payments*** made to cooperating farmers in return for their control of production. This is the general plan now being followed.
2. ***Compulsory control of production.***
3. ***Buying up of submarginal land by the Government.*** Submarginal land in any locality is usually the poorest and least fertile land. It would be necessary to take out a great many acres of poor land to have much effect on the national production of any crop. Furthermore, there is the problem of taking care of the farm population, as well as the population of small country towns in submarginal areas, when large areas of this poor land are purchased by the Government and taken out of agricultural production.

Other possible Sources of Money for Benefit Payments

There can be no benefit payments without either processing taxes or some other form of tax. Sources of income might be (1) increased income and inheritance taxes, (2) a general sales or luxury tax, (3) a tax on profits of processors and distributors, or (4) use of funds from the General Treasury, without any definite plan for reimbursement.

Processing taxes are levied on basic agricultural commodities for which adjustment programs are in effect in order to recoup expendi-

tures from the general fund of the Federal Treasury. The greater the surplus of a particular commodity, the lower the market price is below "parity", and the higher the processing tax which can be levied. Farm leaders who have devoted study to the problem contend that there can be no assurance of continuity for any program which fails to provide a continuing source of revenue.

Thus if income taxes were increased, it might be urged that the additional revenue, instead of being used to make agricultural adjustment possible, should be used for such general social purposes as social insurance, scientific research, unemployment insurance, and the educational activities of the Federal Government.

A general sales tax that would provide the $500,000,000 a year, which is approximately the sum now derived from processing taxes, would have to be at the rate of about 1¼ percent on the wholesale value of all manufactured commodities, or 1 7/10 percent on all retail sales. A serious disadvantage in raising large funds through a general sales tax would be the pressure that would surely be brought to bear by representatives of different commodities to avoid the sales tax. Another disadvantage of the general tax would be the danger of pressure by producers of particular commodities to get their benefit payments raised.

The danger inherent in a program relying upon annual appropriations, which would be subject to discontinuance in any year, was foreseen by sponsors of the McNary-Haugen bill. They proposed the equalization fee, to be paid by farmers, as the continuing source of revenue for the McNary-Haugen plan. For the adjustment program, the problem was met by the provision for processing taxes.

II. The Processing Tax and How it Operates

The processing taxes are collected by the United States Bureau of Internal Revenue from the first domestic processing of certain farm products for which adjustment programs are in effect. Farmers do not have to pay processing taxes on products raised by themselves and used at home. Exporters of the unprocessed farm products pay no processing tax. "Drawbacks", or refunds, equal to the amount of the processing tax, are paid to exporters of processed farm products. The processing tax on cotton, for example, has no effect on the export trade of raw cotton, and when cotton goods are exported the exporter is able to obtain a refund equal to the amount of the processing tax paid.

Compensating taxes, in addition to the tariff, are levied on imported articles in order to keep the usual balance of competition between imported goods and those made in the United States. Compensating taxes also may be levied on the processing of substi-

tute products in this country, as has been done on jute and paper in the forms in which they come into competition with cotton.

What Decides the Rate?

The maximum rate of the processing tax is ordinarily the difference between the average farm price and the fair exchange value of the commodity, or "parity."

Parity is not a set price. It is that price for the commodity which will make it exchange for the same amount of goods farmers buy as it would exchange for during the base period. The base period for wheat, cotton, corn, and hogs is the pre-war period 1909–1914. In the case of tobacco, it is the post-war period 1919 to 1929.

The parity price for an agricultural product can be calculated for any month by multiplying the average farm price in the base period by the Index of Prices Paid by Farmers. For example, the parity price of hogs (fair exchange value) for October 1933 was $8.38 per hundred pounds, live weight. This was determined as follows: the pre-war average farm price of hogs from August 1909 to July 1914 was $7.22, and the index of prices paid by farmers was 116 percent of the pre-war; the product of $7.22 times 1.16 is $8.38, the parity price for hogs for October 1933. The average farm price for October was $4.17. The difference between the current farm price and parity was $4.21, which was the maximum rate of a processing tax on hogs that could have been applied at that time. This full rate could not have been used without resulting in an excessive accumulation of stocks of hog products in the hands of packers, an accumulation of hogs ready for market on farms which could not have been sold, and a substantial decrease in the farm price of hogs. Consequently, as is explained later, it was necessary to put the tax in effect gradually, starting with 50 cents on November 5, 1933, and increasing to $2.25 on March 1, 1934. The tax rate could not be increased any more rapidly than the market supplies of hogs could be reduced and consumer purchasing power increased.

The rate of the tax is fixed by the Secretary of Agriculture in accordance with the rules laid down by Congress in the Agricultural Adjustment Act and amendments thereto. If the full rate of the tax is found likely to cause consumption to be cut down and surpluses to pile up and the farm price to be lower, the Secretary of Agriculture may reduce the rate. This has been done in the case of both corn and hogs.

The Consumer Is Protected

The farmers' adjustment programs are designed to make it possible for farmers acting cooperatively as a group to keep farm prices in line with other prices. That is what parity amounts to.

The rate of the processing tax has a definite limit. If the farm price can, for a period of time, be maintained at parity without an adjustment program, the processing tax cannot be continued. This protects the consumer.

Prior to the war, prices of farm products as compared with prices of nonagricultural products, had shown an upward trend for nearly a century. This reflected the fact that there is almost no limit to the extent that machine technology can be carried in manufacturing, or that machines may be elaborated; whereas in agriculture the limitations on the area of suitable land, and the biological nature of the processes, place definite restrictions on the farmer's ability to use mass-production methods. In consequence there is a long-time tendency for industrial costs of production to fall relative to agricultural costs, and for prices of industrial products to fall relative to prices of agricultural products.

The war reversed the favorable trend that had persisted for a century, and the second post-war depression (1930–1933) wiped out the relative gains of 90 years.

Furthermore, the period from 1909 to 1914 represents one of considerable agricultural and industrial stability with ***a good balance*** between the production and the consumption of each product, with good balance between the purchasing power of city and country, with well-sustained industrial activity and ***little unemployment.*** This was the reason for selecting this period as the "base" period for computing ***parity.***

How Processing Taxes Work

As a practical matter, it is impossible completely to separate the effects of the processing taxes from the effects of the adjustment programs on prices farmers receive or consumers pay for agricultural products. Nor is it possible completely to separate the effects of the adjustment programs from the effects of the drought, the devaluation of the dollar, expenditures for relief, and general business recovery on prices of agricultural products.

Farmers know the prices they receive are much higher now than in 1932 or 1933, and that to them is a more important consideration than the question of who pays the processing tax.

Undoubtedly the processing tax is collected from the processors, but if they are able either to raise the price of the product they sell or to lower the price of the farm products they buy by the amount of the tax, it is obvious they do not really bear the burden of the tax but pass it on to the consumer or back to the farmer. Available data on prices show that processors as a group, generally speaking, have been able to widen their margins between their cost price and their selling price by an amount fully equal to the processing taxes. In

the case of meat packers, for instance, a profit of 25 cents per 100 pounds on the processing of hogs was considered quite satisfactory before the processing tax of $2.25 per 100 pounds went into effect. The packers were able to make a substantial profit in 1934, which was larger than their profit in 1933, whereas in both 1931 and 1932, before the processing tax became effective, they reported substantial losses.

Increases in cotton processors' margins between buying prices and selling prices immediately following the initiation of the cotton processing tax in August 1933 were more than sufficient to meet the cost of the processing tax. Flour millers also were able to increase their margins by approximately the amount of the processing tax in the period following the initiation of the wheat tax in July 1933.

Consumers are paying higher prices for agricultural products than they did before the processing taxes were levied. It is also a fact that industrial pay rolls have increased much more sharply than living costs since 1932. Earnings per worker have risen in the same proportion as food prices have advanced from 1932 to 1935; but costs of living other than food have not advanced. By the middle of 1935 those workers actually employed had, on the average, regained the purchasing power they had enjoyed in 1929; and millions more were employed than in 1932. There is no question that wage rates and employment of city workers are directly connected with farm income and farmers' purchasing power.

The fact is, the processing taxes have made it possible to set in motion forces of economic recovery that have benefited first the farmers and then the city workers, which in turn has helped farm prices. The adjustment programs have been helpful in reducing burdensome surpluses, in raising farm prices and farm income, which, in turn has been helpful in reducing unemployment, increasing wages, and in advancing the general welfare. The increase in national income since 1932 has been sufficient to pay the processing taxes many times over.

Some people would say that this is all too general—that it is dodging the issue as to who pays the processing taxes. If the processors are able to pass the tax on to someone else, upon whom does the burden fall—the farmer or the consumer?

Probably the best way to illustrate how a tax can be passed on almost entirely to the consumer is to take the hypothetical case of a tax on salt. Consumers use a very definite amount of salt and undoubtedly would continue to use very nearly the same amount even if prices were advanced considerably. This is due largely to the fact that no substitutes for salt are available to which consumers can turn when salt prices are advanced.

The extent to which the processing tax can be passed on to consumers without reducing the supply of the product coming to market (or increasing consumer purchasing power), differs materially as among the several agricultural products now paying processing taxes. To the extent that the tax is not passed on to the consumer, it probably is passed back to the farmer.

How the Tax Works with Wheat

The wheat processing tax of 30 cents per bushel (without any change in supply or demand conditions) is passed on to the consumer more completely than is the case with any other basic agricultural commodity. Wheat is not particularly perishable, and comparatively few cheaper substitutes are available to the consumer. The price of wheat flour has advanced substantially since 1932 along with increased consumer purchasing power, but there are no indications that the consumption of wheat has been affected by the increased prices to consumers.

The imposition of the processing tax on July 9, 1933, did not check the rise in the price of wheat during the first half of that month. Furthermore, it did not reduce the price of wheat in the United States relative to the price of wheat at Liverpool. During most of the period since July 1933 the price of wheat in the United States appears to have been maintained at about as high a level as it is possible to maintain wheat prices without resulting in imports of wheat over the tariff wall. If there had been no processing tax, it is not likely that the price of wheat in the United States could have averaged much, if any, higher relative to Liverpool and other foreign markets without resulting in heavy imports of foreign wheat over the 42-cent tariff wall; but the price of wheat to the consumer would have been lower by practically the amount of the tax. The general conclusion in regard to wheat is that the processing tax has been paid by the consumer.

How the Tax Works with Cotton

The processing tax on cotton of 4⅕ cents per pound has been passed on to the consumer about as in the case of wheat. Cotton is a nonperishable product; it can be stored for years without deterioration. Paper and jute are about the only cheap substitutes for cotton, and the use of these materials as substitutes is largely prevented by compensating taxes on these two products in uses that do compete with cotton.

The annual consumption of cotton in the United States for clothing and household uses is relatively stable. Changes that take place in business conditions cause wide changes in the industrial

consumption of cotton, such as the use of cotton for automobile tires, machine belting, heavy canvases, etc. The increased price of cotton to consumers (the tax amounts to about 5½ cents per pound of cotton goods) undoubtedly results in some reduction in the consumption of cotton in this country, perhaps as much as 300,000 to 500,000 bales out of an annual consumption of between 6,100,000 and 7,200,000 bales (during the period 1924 to 1929).

This small reduction in consumption in this country results in a larger supply of cotton available for export, and since cotton is nonperishable, for carry-over into the next marketing season. If this increase in cotton is exported, the world price of cotton would be slightly reduced. If this cotton is added to the carry-over at the end of the season, the world price will be lower the following season. The extent to which the world price might be lowered and the farm price also reduced by the indirect action of the processing tax is undoubtedly small, probably considerably less than ½ cent per pound.

In the 1934–1935 season the price of American cotton was supported by the 12-cent loan, which held the price of American cotton high relative to foreign cotton, and virtually pegged the farm price in the United States. In view of these facts, it is obvious that none of the tax could have been passed back to the American producer. If the tax had not been in effect it is not likely that prices received by producers would have been any higher, but prices to consumers undoubtedly would have been lower by very nearly the amount of the tax on most cotton goods.

How the Tax Works with Hogs

The processing tax on hogs of $2.25 per 100 pounds is largely passed back to the producer (in the form of lower prices for the same market supply, or the same price for a smaller market supply). The incidence of the processing tax on hogs is almost entirely on the producer, whereas in the case of wheat and cotton the incidence is in the opposite direction—largely on the consumer.

Packers naturally charge "all the traffic will bear", that is, all the consumers will pay for the supply of hog products that must be disposed of during any given period. Packers process all of the supply of hogs offered on the market by farmers, whereas wheat and cotton mills process only that part of the available supply for which they have a market. Wheat and cotton can be stored without processing, hogs cannot; and even after processing and curing, hog products can be held for only a comparatively short time.

If packers generally should charge "less than the traffic would bear", they would find their current stocks being reduced faster

than they could replenish them. If packers attempt to charge more, consumers eat less than packers have to offer, surplus stocks accumulate, and prices have to come down again in order to move the total supply into consumption before spoilage occurs.

This "mechanism" of price determination works when packers try to raise the price in order to pass the tax on to consumers, just as it does when they try to raise the price for any other reason. The tax cannot be passed to consumers to any appreciable extent because of the flexibility of consumer habits and the availability of substitutes for pork.

The way in which the tax probably would work was recognized when the corn-hog program was being developed. Consequently, it was necessary to put the tax in effect gradually, starting with 50 cents on November 5, 1933, and increasing to $2.25 on March 1, 1934. The tax rate could not be increased any more rapidly than the market supplies of hogs could be reduced, or the farm price would have been depressed by the tax. During the period when the tax was being increased, the Government was removing supplies of hogs and hog products from the commercial market. Government purchases of hogs and pork products for relief uses helped reduce supplies beginning in November and December 1933. The Government pig-buying program of August and September 1933, in which about 6 million pigs and light hogs were taken off the market, materially reduced hog supplies between January and June 1934. Spring farrowings in 1934 were reduced 28 percent, in part as a result of the corn-loan and corn-hog adjustment programs.

If the hog processing tax were for any reason suddenly removed and supply and demand conditions for hogs remained unchanged, the market price of hogs would probably go up by almost the full amount of the processing tax, at least temporarily. The higher price, however, would stimulate the feeding of hogs to heavier weights and also cause farmers to materially increase hog farrowings. The increased supply of hogs would then cause prices to go down.

It is apparent, therefore, that unless the hog adjustment programs do reduce hog supplies below what they otherwise would be, farmers gain nothing. On the other hand benefit payments, at least equal to the funds collected as hog processing taxes, have been made to corn-hog producers. It seems eminently fair that hog producers should bear the burden of financing a program that brings them benefits.

When the processing tax is considered in conjunction with the adjustment program, it is apparent that the farm price was not actually depressed by the processing tax because the market supply of hogs was reduced sufficiently, not only to offset the effect of the

processing tax but also to so reduce the supply of hog products offered the consumer; consequently prices to farmers have advanced to parity and above during the summer of 1935.

Summary

Both economic reasoning and statistical studies of available data indicate that so far as wheat, cotton, and hogs are concerned, processors apparently have been successful in passing the burden of the processing taxes which they pay in the first instance, either ***on*** to the consumer or ***back*** to the producer. In the case of wheat and cotton the tax has been largely passed on to the consumer, in the case of hogs, back to the producer. The question of just who pays the processing taxes, consumer, producer, or both, is largely academic. The important fact is that the processing taxes have made it possible to develop a program that has been extremely helpful in starting the Nation toward recovery, and in increasing national income and promoting general welfare.

National income increased by 5 billion dollars from 1933 to 1934, or from $44\frac{2}{5}$ billion dollars in 1933 to $49\frac{2}{5}$ billions in 1934. In 1929 the national income was $78\frac{3}{5}$ billion dollars.

III. How Processing Taxes Have Helped Farmers

Not all the increases in farm prices and farm income since 1932 have been due to the adjustment programs and benefit payments. The cheapened dollar helped in the case of cotton, wheat, and export types of tobacco—agricultural commodities which enter export trade in considerable volume. The drought by reducing production and supplies of farm products caused farm prices to rise in the same way that reduction in production brought about by the adjustment programs reduced the supplies of certain farm products and thereby caused farm prices to rise. The improvement in business conditions, brought about in considerable measure by increased farmer purchasing power, in turn contributed to the rise in farm prices.

The total American cash farm income in 1932 was about $4\frac{2}{5}$ billion dollars as compared with $10\frac{2}{5}$ billions in 1929; in 1933 it was a billion dollars higher, or $5\frac{2}{5}$ billion dollars; and in 1934, in spite of the drought, it was nearly $6\frac{3}{10}$ billions. In 1935 agricultural cash income is expected to be $6\frac{4}{5}$ billion dollars. Cash income available to farmers after deducting cash outlays for operating the farm business increased more than 100 percent from 1932 to 1934, or from $1,473,000,000 in 1932 to $3,257,000,000 in 1934.

The cash farm income in 1932 from cotton and cottonseed was $464.329,000; in 1933 it was $861,926,000 including benefit payments; and in 1934, $838,666,000 including benefit payments.

Cash farm income from wheat in 1932 was $195,860,000; in 1933, $373,960,000 including benefit payments; and in 1934, $390,677,000 including benefit payments.

In 1932 farmers sold about 12½ billion pounds of pork for $439,-536,000. In 1934 farmers sold about 11½ billion pounds of pork for $493,925,000, and in addition they received $203,694,000 in benefit payments.

In 1932 farmers received $107,821,000 for the tobacco they sold; in 1933 they received $185,258,000 including benefit payments; and in 1934, $277,213,000 including benefit payments.

The cash income of sugar producers has increased from about 58 million dollars in 1932 to nearly 74 millions in 1934 including benefit payments. A reduction in the sugar tariff equal to the amount of the processing tax has accompanied the imposition of that tax.

IV. The Effect of Processing Taxes on Consumers

The exceedingly low prices of farm products prevailing in 1932 and early 1933 did not mean simply that consumers could secure agricultural products at low cost. Farm prices of representative food products declined 60 percent from 1929 to 1932, while retail prices of the same products declined only 40 percent. Costs of distributing food products, meanwhile, showed practically no decline.

On the contrary, these low farm prices meant that farmers had lost their ability to buy industrial products; that factories were shut down and millions of workers were without employment, and that mutual production and exchange of products between city and country rapidly were coming to a standstill. Under these conditions millions of consumers were worse off with low prices of farm products and unemployment than they would have been with higher prices and employment.

The above statement is supported by the fact that the decline in farm income from 1929 to 1932 was accompanied by an equal decline in the income of factory workers and further confirmed by the fact that the increase in farm income from 1932 to date has been accompanied by an almost exactly corresponding increase in the income of industrial workers.

From 1932 on, industrial pay rolls increased much more sharply than living costs rose. Even those fortunate workers already employed in 1932 enjoyed a net gain. From 1932 to 1935, ***earnings per worker rose and food prices to consumers rose in the same proportions;*** but costs of living other than food, which had declined only half as much before, did not advance along with food prices.

By the middle of 1935, those workers actually employed had, on the average, regained the purchasing power they enjoyed in 1929, and millions more were employed than in 1932. Just as was expected by Congress when it passed the Agricultural Adjustment Act, higher farm prices have been accompanied by a higher standard of welfare for the general population.

V. Arguments Concerning Processing Taxes

Arguments Against Processing Taxes

1. "The most serious objection to the processing tax, and one which merits careful consideration, is that the greatest burden falls on the poorer people. This is an important and legitimate criticism of the processing taxes." (Report of the Secretary of Agriculture, 1934. p. 36.)

But, as the Secretary has pointed out, given a certain price level for food, the effect on the poorer classes is the same whether the price results partly from the operation of a processing tax or entirely from the operation of supply and demand. "Parity" prices have been assumed by Congress to be fair prices both to consumers and farmers. If some consumers are too poor to pay fair prices for their food, the Agricultural Adjustment Act recognizes that the farmers scarcely can be expected to take exclusively upon themselves the burden of a problem which actually belongs to society in general. Instead the act assumes that the responsibility of looking after these poorer classes belongs to the whole people, and not to the farmers alone.

In the long run, however, farmers believe that many of the poorer people will be helped—have already been helped—by the processing-tax adjustment program, which has revived farm buying power for city factory products, thus putting more people to work. Farm income and factory pay rolls rise and fall together.

2. Another argument often heard is that the processing tax simply takes money out of the pockets of one group and puts it in the pockets of another. It is obvious that the recovery in business and increase in national income has been in part due to the adjustment programs.

3. The processing tax is indirectly the means of financing a program which, according to the view of some persons, is not a justifiable function of the Federal Government.

4. By making possible control of production of farm products, the processing tax tends to limit the volume of these products handled by processors. The argument is made that this cuts down the need for labor in the processing plants and adds to unemployment. But proponents of the tax declare that from the standpoint of the proces-

sors and their employees stabilized production is preferable in the long run to alternate periods of surplus and shortage.

5. The processing taxes add to the bookkeeping of processors, and collection of the taxes entails additional administrative machinery in the Bureau of Internal Revenue.

6. Some say it is wrong to tax raw materials instead of the finished products, because the tax is apt to be pyramided; that is, every handler adding a little extra to the tax so that by the time it reaches the consumer the tax has been greatly increased. There is little evidence that this has taken place, and the act authorizes the use of publicity measures to prevent pyramiding and profiteering.

Arguments for Processing Taxes

1. The processing tax provides a continuing and reliable source of revenue, lessening dangers of interrupting programs because of failure of Congress to make annual appropriations.

2. The processing-tax benefit-payment adjustment programs are planned to operate without adding to the public debt or direct appropriations from the Treasury.

3. The processing tax is easy and inexpensive to collect, and hard to evade.

4. The annual proceeds from processing taxes can be forecast with reasonable certainty.

5. Processing taxes apply only to the domestically consumed part of farm production and do not penalize the exporter.

6. The farmer is not taxed on products raised for his own food.

7. Processing tax rates can be adjusted to meet changing economic conditions.

8. Processing-tax and benefit-payment adjustment programs offer the best means thus far devised for organizing farmers into an effective cooperative effort to adjust their industry for the benefit of themselves and of society as a whole.

Suggested References

"Achieving a Balanced Agriculture", G–20.
"Facing the Facts in the Agricultural Situation", G–42.
"Industry's Production Policies and the Farmer", G–44.
"Administered Price and Market Price", G–47.

These publications may be secured, without charge, as long as supplies are available, from the Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.

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